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Opinions

The American Health Care Act is a good start

By Douglas Holtz-Eakin March 9

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The draft legislative texts that will make up the American Health Care Act [cleared two House committees](#) this week amid vociferous complaints about the legislation, seemingly from all quarters. At some level this is understandable. After all, nobody expected the Democrats to stand up and applaud a replacement for the Affordable Care Act. And for Republicans, three other factors contribute. First, health-care reform is hard, and there are widely varying views of the best policy. Second, these are draft bills, not final legislation. The markup process is supposed to identify and modify unpopular provisions. Finally, the bill's scope is limited by the budget reconciliation rules that fast-track Senate consideration. It is simply not possible to embody the full range of policy issues in a reconciliation bill, and some disappointment directly follows from what has had to be left out. Given these circumstances, any bill designed to achieve 218 votes in the House and 51 votes in the Senate is going to generate some dissatisfaction for all involved. Nevertheless, the bill is an important step away from the ACA and a clear step forward on health-care policy.

Some broad themes are clear. The ACA was a one-size-fits-all, top-down approach to policymaking. In contrast, the AHCA moves decision-making to the grass roots by providing funding, but permitting states flexibility in how to deal with costly preexisting conditions, provide reinsurance and other stop-loss protections that permit insurers to function effectively, and trusting state insurance regulators to run their markets. Even the significant Medicaid reform needed to ensure the program's long-term sustainability carries enormous freedom for states to tailor their programs to their populations.

The ACA dictated insurance choices to individuals and families with its bronze, silver, gold and other levels. It required that they shop in government-run exchanges to get subsidies, and it levied a fee on those who were uninsured. The AHCA places trust in the decisions of individuals and families by making greater use of health savings accounts (which hone the market incentives for higher-value care) and respecting their ability to follow incentives to be continuously insured. Its refundable tax credit will be available to all low- to moderate-income individuals and will tend to equalize the tax treatment of employer and individual insurance.

Finally, the AHCA gets rid of most of the ACA's many ill-conceived tax policies including the medical-device tax, the health insurer fee and the investment surtax. The remaining big-ticket item — the “Cadillac tax” — is put off until 2025.

While the Congressional Budget Office's analysis of the AHCA remains forthcoming, there are insights gleaned by comparing the AHCA to its forerunner, [the House GOP's “A Better Way” proposal](#). The nonpartisan Center for Health and Economy (disclosure: I am a

member of the group's board) [scored A Better Way in 2016](#) and concluded that its regulatory reforms, universal tax credit (for those without employer coverage) and rapid rollback of the enhanced matching rate for the Medicaid expansion population would result in increased enrollment in the individual market. While the AHCA phases out the enhanced match more slowly, the value of the credits is noticeably higher than what H&E assumed for A Better Way. While the regulatory reforms cannot be in a reconciliation bill, they will likely emanate from the actions of the Trump administration. Given this, it is likely that AHCA would generate a comparable rise in individual market enrollment.

On the budget side, things are a bit murkier. H&E anticipated that the non-Medicare provisions of A Better Way would reduce federal spending by roughly \$170 billion over 10 years. H&E expected A Better Way's tax credits to cost about \$360 billion, but AHCA's credits are more generous and can be expected to cost more.

Other differences between the two proposals will also influence the final budgetary impact of the legislation, but the most significant factor will be the total savings from AHCA's Medicaid reforms. H&E expected Medicaid changes in A Better Way — which are largely repeated in the AHCA — to save \$636 billion. Ultimately, the total savings obtained from the proposal's Medicaid reforms will likely determine its effect on federal spending.

A final consideration is that the reconciliation legislation is only one part of the replacement process. There will also necessarily be a host of rulemaking and administrative guidance forthcoming from the Trump administration. And additional legislative fixes and changes to the health-care system that can't be undertaken through reconciliation are

already underway. But the bottom line is simple: Early criticism notwithstanding, the AHCA is a good start to reform the federal government's role in the health sector.